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RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
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STATE FOR WHA/ESPC AND WHA/CEN  
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USDOC FOR 4332/ITA/MAC/WH/MSIEGELMAN

E.O. 12958: N/A  
TAGS: [EINV](#) [ENRG](#) [ECON](#) [PGOV](#) [NU](#)  
SUBJECT: NICARAGUA: PROPANE FOR THE PEOPLE

REF: MANAGUA 706

Summary  
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¶1. (SBU) On September 24, President Ortega declared a state of emergency and announced that the Nicaraguan Government would name an "Intervention Board" to manage propane distributor Tropigas for six months "to address a potential propane shortage." A Tropigas official claimed there is no propane shortage, but he acknowledged privately having delayed the importation of new supply to leverage the government into raising propane prices, which are regulated. Petronic President and FSLN Treasurer Francisco Lopez had suggested the day before the intervention that Venezuela could supply propane through ALBANISA or that Petronic could rent Tropigas' facilities to distribute Venezuelan gas. In the near term, the FSLN could tolerate neither a price increase for, nor a shortage of, the predominant cooking fuel. In the long term, Petronic could use Tropigas' infrastructure to establish itself as a propane distributor.

Ortega Orders Tropigas Takeover  
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¶2. (U) On September 24, President Ortega signed Decree 53-2008, invoking constitutional powers to declare a state of emergency and authorize the Nicaraguan Energy Institute (INE) to intervene in propane distributor Tropigas for six months "to address a potential propane shortage." Ortega justified the measure on FSLN-controlled Radio Ya, explaining that it was the role of government to "guarantee propane supply at fair prices." Ortega said he had no choice but to intervene because Tropigas, which supplies 70% of the propane in Nicaragua, had threatened to cut off supply if INE, the government regulator, did not increase prices by 100%. The decree also stated that "this intervention does not affect the property rights of Tropigas."

¶3. (U) On September 29, the Executive Committee of the National Assembly returned the decree to the executive branch for clarification and technical corrections. Legislators requested more information regarding the justification for declaring a state of emergency and suspending constitutional protections to allow INE to make financial and operational decisions on behalf of Tropigas. They also complained that First Lady Rosario Murillo, who is not a member of the Council of Ministers, was among the ministers who signed the decree. When the decree is corrected and resubmitted, the National Assembly will meet in a plenary session and approve it as is, approve it with amendments, or reject it outright. Meanwhile, the measure remains in effect.

¶4. (U) INE President David Castillo, a Liberal Constitutional Party

(PLC) politician who often cooperates with FSLN officials in compliance with the power-sharing arrangement between Ortega and Aleman (reftel), told reporters that Tropigas "was in a weak financial position" and INE would "work with the company to supply propane at current prices." Castillo asserted that Tropigas had reserves in Nicaragua for only three days, far below the ten-day cushion required under the 1998 Hydrocarbons Supply Law.

15. (U) Castillo claimed that in a meeting on September 23, Tropigas rejected a number of INE options that would help the company improve its financial position and increase supply. He said Petronic -- represented at the meeting by President Francisco Lopez, who also serves as FSLN Treasurer -- was available to provide financing to Tropigas. Castillo said Venezuela could supply propane through ALBANISA for Tropigas to bottle and distribute. He further suggested that Petronic could rent Tropigas' facilities for the distribution of Venezuelan propane.

#### Tropigas Denies Supply Problems

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16. (SBU) Tropigas is a family-owned company based in Panama with operations in El Salvador as well. A U.S.-citizen family member holds a minority share. Tropigas General Manager Walter Calderon told Econoff on September 26 that Ortega's decree was unnecessary. He explained that the company had delayed purchasing additional supply as leverage for a price increase in its negotiations with INE. The company never intended to completely cut off supply, he explained. In fact, propane was in transit from Puerto Cortez in Honduras.

17. (SBU) Calderon said that on September 19, Tropigas wrote INE complaining that the "situation had become untenable" and that without a price increase, the company could not import additional supplies and continue distribution at least in the form of 10- and 25-pound tanks. That letter, Calderon believes, triggered the government intervention. He explained that INE establishes propane prices according to a formula that reflects changes in the market price of propane. Since 1995, this formula has not factored increases in wages, transportation, and environmental compliance costs. Calderon said Tropigas loses money on all 10- and 25-pound tanks for household use but sells 100-pound and larger tanks for a profit. He said Tropigas is a wholesale distributor only and thus does not collect retail margins (regulated by INE) on which its competitors rely to make a profit.

#### INE Establishes Intervention Board

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18. (SBU) Since Ortega's September 24 decree, INE has established an "Intervention Board" that includes technical, administrative, and financial staff to oversee Tropigas' day-to-day operations. Board Director Onasis Delgado ordered Tropigas to purchase 70,000 gallons of propane from competitor Zeta Gas on September 25. Calderon has sought to block the delivery on safety concerns and as of September 29 claims that his company has a ten-day supply. In addition, Delgado has ordered Tropigas to allow him to sign for the company on all financial dealings.

#### Propane for the People?

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19. (SBU) At the September 23 meeting, Calderon told Econoff that Petronic President Francisco Lopez outlined a plan for the government to use ALBANISA funds to provide 25,000 stoves and 50,000 propane tanks to the public during the next two months. Calderon speculated that the government intervention may be motivated by the desire to use Tropigas' storage facilities and distribution capabilities to get these stoves and propane tanks into the kitchens of potential voters before the November municipal elections.

#### Comment

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110. (SBU) It is plausible that Ortega would want Petronic to take over Tropigas operations. In August 2007, he seized ESSO storage tanks for a similar purpose. That led to the flow of funding from Venezuelan oil company PDVSA to FSLN-controlled entities and,

likely, to the ruling party itself. With municipal elections just six weeks away, Tropigas' gamble that creating a propane shortage would force INE to raise prices seems to have backfired. In the near term, the FSLN could tolerate neither a price increase for, nor a shortage of, the predominant cooking fuel. In the long term, Petronic could use Tropigas' infrastructure to establish itself as a propane distributor.

CALLAHAN